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Smyth, William Henry

The great credit myth,  
money magic and world...

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# The Great Credit Myth, Money Magic and World Bankruptcy

## FOREWORD.

The forewarning which follows was written about the middle of 1917. If you will turn your mind back over the intervening period of interest-fostered hysteria—hysteria which is only now gradually subsiding into a semblance of sanity under the cold water cure of H. C. L.—you will appreciate why this appeal to common sense could get no earlier hearing.

In New York, during 1918, the proprietor and managing editor of one of the most widely read, conservative, and respected national weeklies candidly said to the writer:

"In substance I agree with your position, and in case the war is protracted for only a few years more I am convinced that your economic views will, perforce, have to be generally adopted. But as things are now, we dare not print your economic articles. We have promised to boost for bonds."

Before the war, the managing editor of the leading industrial management magazine, in a letter to me about a series of economic articles which he wanted me to write for his publication, naively said: "I don't know a damn thing about economics and finance." More recently, the editor of a daily, under like circumstances, was equally frank in his acknowledgment of ignorance. And only a day or two

ago, a U. C. professor (and editor of an agricultural weekly), who is an acknowledged authority in his own department, added his frank confession of economic befogment.

Indeed it has become to me a trite and commonplace experience, to hear from the lips of lawyers, doctors, mechanics, businessmen—and bankers! the same honest confession: "I don't know a damn thing about economics and finance."

Truly! "There's a reason."

Therefore (quoting from another article of mine, "Continental U. S. Insular Britain and World Trade," printed serially in the Gazette, April 15 to April 20)—"Before taking up my theme I want to ask the reader to forget for the time being that he knows nothing about economics and finance, or that he is convinced these are subjects abstruse beyond his power of comprehension. You 'know' as much about these alleged sciences of economics and finance as the writer, or the bankers or financiers or the professors of economics, who are all equally ignorant. . . . With no 'science' to guide us, we are compelled to fall back on common horse sense. . . ."

\* \* \*

## 20th Century Witchcraft.

Future historians, with some cause, may characterize our time as "The Age of the Credit Myth," just as we speak of the days of Wizardry and Magic. The history of our time may show that "wizard of finance," "the

magic of credit," are no mere metaphors, but express a belief in occult powers; that the ideas underlying "Credit" and the functions attributed thereto are the same mystical ideas and the same belief in supernatural powers which in the old days were associated with witchcraft. It may prove that, as in all times past, superstitious fallacies still befog men's minds, still misguide their acts, still characterize their institutions—changed only by being tricked out and disguised in twentieth century conventions.

## Legalized Magic.

In the days when witchcraft and magic controlled every act of man's life and were commonplaces of human thought, accepted as unquestionable realities, he would have been a rash individual who ventured to attack those time-honored superstitions. For not only consensus, expert opinion, laws, legal authority, and conventions would be cited, but masses of hard incontrovertible "facts" in his own and others' common experience, avalanche-like, would be hurled upon the reckless critic, overwhelming him with ridicule and contempt.

## A Costly Fetish.

So in the present time—when wars are waged, railroads built, industries founded and conducted on "credit"; and "credit" itself is exultantly described by high authority as "the most wonderful invention and the greatest wealth producer ever devised by man"—to attempt to show that, as an energizing principle, credit is as mythical as magic; that as a motor force in modern accomplishment and productive industry, it is merely a useless, complicated, and costly fetish, a recurrence (or continuance), in our time, of pure witchcraft, under a new name: such attempt proposes a similar reckless task and invites ridicule as overwhelming as confronted those who in the old days attacked the earlier sacrosanct, but now discredited, forms of ignorance and superstition.

Such none the less is my purpose.

## Before It Is Too Late.

I entertain, however, no foolish hope of overturning present notions of "credit." My object will be accomplished if I succeed in suggesting the

advisability of scrutinizing these accepted notions of credit. I would seriously and patriotically raise a warning hand.

With all my strength and fervor I would raise my voice in pleading and protest—Stop! Look! Listen! Listen to the ominous rumbling of the revolutionary flood ahead! Look back at your stupidities, your magnificent lost opportunities! Stop your headlong heedless rush toward inevitable disaster! Stop! Look! Listen!—before it is too late.

## Authorities at Loggerheads.

It would be, of course, highly desirable to start this proposal with a clear statement—definition—of the thing or proposition about to be investigated. But here is met the first difficulty. For not only is there no universally accepted definition of the word "credit," but the authorities, financiers and professors of economics, are vigorously at loggerheads with each other as to its meaning or connotation. And the word itself, which trips so easily off our tongues, expresses as many different ideas almost as there are speakers who use it.

## Intangible Elusiveness.

To attempt to bring even a semblance of order into this chaos of conflicting notions, as a wholly desirable preliminary, would involve a volume in itself, hence is impracticable—if possible: which is more than questionable.

This condition alone (so curiously reminiscent of the dilemma in which the early critic of witchcraft undoubtedly found himself) may suggest implications which are highly significant.

It is difficult to imagine a more hopeless task than that of attempting to disturb belief in a myth of universal acceptance. The very nature of a myth is its intangible illusiveness and elusiveness. So all the rapier thrusts of logic and sledge-hammer blows of commonsense experience pass through it without effect. I shall therefore content myself with pointing to the most obvious absurdities of the credit myth.

## Hopes Exchanged for Things.

The most glaring, crack-brained, eccentricity of "credit" is that it at-

tempts to extend a ghostly hand into the future, to drag back therefrom—into the present—the products of future toil. Then, assuming to have accomplished this remarkable feat of legerdemain, it proposes to exchange these airy dreams of future products for real things now existing. In brief, it proposes to exchange hopes for things.

Hope not only "springs eternal," but is infinite in extent. It is intangible, indivisible, unweighable, unmeasurable, and lacks every quality which characterizes things; but by the magic of "credit" we divide this psychical condition into unitary segments and deal in optimism by the foot, by the pint, by the pound.

#### Black Magic and Black Morals.

A common description of a "credit" transaction is: the exchange of present goods for future goods.—"Present goods invariably possess a greater value than future goods of the same number and kind."

This seemingly meaningful sentence is the contribution to the cult of economics which made famous one of its high-priests—the axiomatic dictum having received practically unanimous approval from the lesser priests and professors of the mystic economic cabala.

On one, however, in whose intelligence have been sown the seeds of doubt, this same seemingly sane sentence produces a sense of shock—a shock of surprise that any healthy mind could have assembled in so few words so many logical impossibilities, and such a complete conflict with rational thought.

We can no more exchange (present) existing things for (future) non-existing things than we can breathe (today) tomorrow's breath or live (today) tomorrow's life.

And yet, by this hocus-pocus mythical exchange, we not only expect to modify physical conditions in a world of hard realities, but we also propose (in whole or in part) to "pass on the burden of war" and shuffle off the toll of present toil, on to the shoulders of unborn generations. Still not content—and in return for their enforced generosity—we would employ our fetish to filch the product of their as yet unexpended labor and hocus it

into our own hands for immediate use—a transaction black in morals as in magic.

#### Future Bullets and Dream Carnage.

Not only are miraculous "credit" proposals (by the myriad) seriously made, but with practical unanimity we have convinced ourselves of our success in performing these marvels. And this in the face of the obvious fact that the destruction of war and the production of peaceful industry are the results of past efforts and accomplishments, ending with the present instant.

Every result (whether of peace or war) which depended on "future goods," or future toil, or future anything, for its accomplishment, would stop instantanely till the future goods, toil, or what not ceased to be a figment of hopeful imagination and materialized as a physical reality—a present usable instrumentality.

If workers worked in future materials, or if soldiers shot at each other with future bullets, or if both toolers and fighters fed on future food, only visionary products and dream carnage could result.

#### Renting "Future Goods."

Based on the same customs which make real things transferable from one individual to another for rent, these imaginary "future goods," magically imagined back into our hands, are by finance convention made rentable like the physical things to which they are supposed to correspond. This is the purpose of "credit instruments"—interest bearing "bonds," mortgages, I. O. U.'s, etc. The hire of mythical "future goods" is one of the peculiar aspects assumed by "Interest"—renting chunks of hope at 5 per cent, by self-appointed purveyors of public optimism,—the bankers.

"Interest" is so bound up with "credit" that to consider one without at the same time dealing with the other is very difficult. Credit is indeed conceivable without interest, but, as can well be imagined, it would then present the aspect of a corpse deprived of the vital force by which alone it is animate.

#### Voodoo Credit.

In its most dangerous aspect credit

implies the capability of using now the assumed products, resulting from future toil. But this obvious absurdity is befogged and disguised by avoiding so bald a statement, and expressing it in terms of payment—deferred payment.

We may have, or use, or construct, or destroy something now, and later on we, or others for us, will "pay" for our present having, using, constructing, or destroying—out of the product of future toil.

Convention has made this assumed transaction so commonplace as to cloud our vision and prevent our seeing that in essence it is nothing but the same absurd proposition: that future things are actualities possessed of like qualities with things now existing, and that—through voodoo written instruments—time is reversible, by the magic of credit.

So we have only to imagine enough billions of "future goods"—issue enough "bonds"—and all can live happily thereafter, without work, on the interest of our debts.

#### Bubbles and Pipe-dreams.

Thus the glittering credit bubble expands, stretching and straining its iridescent dream film, dazzling our slumbering minds, charming our hopeful imaginations, mesmerizing commonsense with false promises of something for nothing, soothing us with opium dreams of "credit" wealth, oblivious to the inevitable fate of bubbles and pipe-dreams.

And—the World War is on us!

The War, with its sledge-hammer shocks of rude awakening to life's stern hard reality: things are not done or made in pipe-dreams of future effort, but are the result of past and present toil and sweat.

"Though thou should bray a fool in a mortar among wheat with a pestle, yet will not his foolishness depart from him."

#### Work or Fight.

Germany threatens our national life and our cherished institutions by her military machine; her air-ships and sea-ships (surface and submarine), big-guns and little-guns, flame projectors and gas producers, and her efficiently organized masses of human fighters—a truly fear inspiring

array of (present) destructive physical instrumentalities.

We, with our age-long habit of reliance on magic, naively proceed to incantations and "raise" billions and billions of "credit," to smash the German Machine.

But our friends across the water have had three years braying in the mortar, and in this drastic experience have discovered that, however potent in peace times, money magic won't work in war—all must "work or fight!"

The German Machine is immune to magic even stamped with the \$ mark.

What our allies in war-torn Europe need and must have is not magic interest-bearing "credit" drafts upon the future; it is present ships and food, present powder and guns, present tractors and troops, to smash the German Machine and destroy the German Menace.

We, too, must work or fight!

With some groaning and grumbling we are now at work.

#### Real Things vs. Finance Fictions.

If our quaint "credit" notions and queer conventions based thereon were, like some "legal fictions," desirable as facilitating our practical purposes, without counter-balancing ill effects, none could reasonably object. If we could in reality further our present activities by using the "credit" assumption—the immediate availability of future products, as though they were the same as present things—then indeed "credit" might be something of what is claimed for it by its beneficiaries, the wizards of finance.

But there exist several essential differences between future goods and present goods which render this assumption not only invalid, but a source of ultimate social disaster and general bankruptcy; disaster directly growing out of the invalidity of the assumption.

#### Past, Present, Future.

Everything relating to past human effort and its products is defined and measurable. There are in the world at the present time a definite number of people. There are in the world at the present time definite amounts of raw materials and of manufactured articles. The life of each human indi-

vidual began at a definite instant and extends up to the present moment. Thus these things are essentially measurable, they have definite physical limitations.

This essentially differs from all that pertains to the future. The future begins with the present instant, but has no other limitation. Its contents partake of the same character. This peculiarity also characterizes hope, which by its nature deals not with the past or the things of the past, but with the future and its contents.

The "credit" scheme assumes to exchange psychological conditions—joy-inspiring visions of hopeful imagination, as though actualized—for concrete and definitely measurable things. It proposes (for a small present consideration—"interest") to transmute "future goods" into "present goods" of usable form.

#### Billions of Billions of "Credit."

The practical working out of this modernized form of an ancient fact—transmutation—could easily be anticipated, even though we lacked the proof afforded by the conditions in which we at the present time find ourselves; conditions which show its farcicality in all its glaring absurdity.

A few generations ago they thought of "credit" in terms of single dollars, or in hundreds, or even in thousands. A generation ago, they thought and talked in thousands or millions, or in extreme cases in tens of millions. Today we think and talk in terms of billions. Next week or next year, doubtless, we shall think and talk in thousands of billions, millions of billions, billions of billions. After that—what?

Infinity of credit?

Why not?

#### An Infinite Storehouse.

The future is infinite; hence, if its contents are transferable or transmutable, in fact or in effect, back into the present, for our immediate use and enjoyment, obviously we have an infinite storehouse filled with (dream) products immediately available for our practical use and gratification; and, like the lilies of the field, we are spared the undesirable necessity of mowing and toiling and getting all dirty and "het up."

Sure! Wish all the "future goods"

that heart can desire or greed can crave; start the hurrah!—glory hal-lalujah! "future goods" bond drive!

Inflate our indescendible credit bubble some billions or billion billions more, and—presto! up goes H. C. L. into the blue empyrean and every one is . . . happy!

#### A Spirit Proxy.

Apart from the measurable nature of physical things, characteristically they have a most annoying way of becoming ineffective and wearing out by use, to say nothing about becoming obsolete. Thus their utility and rentable life is a determined and measurable quantity.

Not so the "credit" representative of either present goods or "future goods." This most remarkable proxy enjoys a spirit existence independent of the thing it "represents." And taking into consideration the factor of rent, we come upon another curious phase; a phase which seems to indicate that, by association with "credit," rent (or interest) takes on the magical qualities of its companion marvel.

#### On and On Forever!

As a physical thing and its use are transferable for hire or rent, so too—of course!—the dream products of hopeful imagination, brought back into the present, are likewise (by convention) transferable for hire or rent. So, though the physical hammer, engine, factory, wharf, railroad, war munitions, or what not, may have passed out of existence into oblivion, the "credit instruments" representing them—the "bonds," "stocks," "debentures," "consols," "funds," etc.—continue a joyous spiritual life (unaffected by the mere physical cessation of the real things), and the rental charge for these non-existing things goes happily on and on, forever!

For instance, Berkeley has already paid \$60,000 to \$70,000 interest on its \$110,000 wharf bonds; and the money for that heavy continuing interest bill had and has to come out of taxes.

Or take the classic case of the small northern town that bought a fire engine with \$5,000 municipal bonds. Fifteen years thereafter, when the engine had worn out and was junked, the original \$5,000 bonds had become, by re-bonding, \$7,500. By now that \$5,000 fire engine has cost the tax-

payers of that community from \$10,000 to \$15,000—and the bonds have still to be paid!

Similarly, the debts contracted during the Napoleonic wars by the British government, that is: saddled by the then government on the British people, enjoy an endless life. For the bonds issued (over a hundred years ago) to "pay" for the war expenses, the "consols," are still out. And the British of today, the great-great-grandchildren of the dead contracting parties, are still taxed to pay the interest on those bonds.

#### Mythical Storehouse

Thus from the stupendous storehouse of futurity we are enabled, by the magic of credit, to bring into the present endless quantities of "future goods," and rent them forever at 5 per cent.

And, when it is remembered that the 5 per cent rental of these future (non-existent) goods is payable in present real goods (and such payment enforceable by law) we have the truly interesting situation that all the present goods in existence could be purchased out of the undiminishable income derived from this mythical storehouse, for the use and enjoyment of the storehouse keepers, the self-appointed purveyors of public optimism—the financiers.

(Since this was written the course of events has disclosed the evidence that it has already been accomplished. The civilized world is acknowledged insolvent. "World bankruptcy" is the logical and inevitable outcome of the credit system, the central fallaciousness of which I have endeavored to outline.)

#### Wizards of Finance.

Taken by and large, what does the situation thus outlined indicate? There can be but one answer.

In the last hundred years applied science and the steam engine have enormously enlarged human effectiveness, with the result of a marvelous increase in productiveness.

Thus a social change has occurred during this period, but the time has been insufficient, as yet, to effect a corresponding change in customary or habitual ways of thinking. And, during all time past, the naive and in-

stinctive explanation of any unusual happening is, Magic!

From the dim haze of antiquity down even unto the present day, hour and minute, magicians and wizards have always been plentiful, and much in evidence when marvels are happening; and seldom backward in accepting credit therefor and other more tangible expressions of gratitude.

It would be strange indeed—with our age-long habit of mind—did we accept so commonplace cause-and-effect explanation, as science and steam, for so remarkable a happening as the enormous (ten to twenty-fold!) increase in industrial production of our generation.

Clearly, the most natural course—in keeping with immemorial custom and mental habit—is to attribute the marvels of this Age of Productive Industry to "the most wonderful invention and greatest wealth producer ever devised by man"—the Magic of Credit.

Fernwald, Berkeley, Sept. 3, 1917.

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#### POSTSCRIPT.

The war is over—won! The shadow of German imperialism is gone from the world.

#### Our Bond Age.

But the world is darkened by a still blacker and more threatening cloud, a deeper and more ominous shadow: bonds!

Bonds that mean in sober truth—bondage.

The war is over. But the bonds are with us still. The world is safe for democracy; and we, who have fought for the freedom of others, have with crass illogic foolishly fastened upon ourselves an endless financial bondage.

We paid for victory with the life-blood of our best. We paid in lavish prodigality with our wealth and goods. And—have we not paid in full?

#### A Phantom Terror.

The credit myth—that grotesque phantasm made so terrible by men's incredible belief in it—decrees that we must go on paying; decrees that we must repeat and repeat our sacrifice; decrees; no respite from work, no surcease from saving; decrees that we must "work harder and save more" to pay again for that for which we have

paid in full—yes, paid in full, good measure and running over; decrees that we must go on paying in perpetuity!

#### A Modern Moloch.

The crazy notion that we needed to issue "bonds" to wage war is on a level with the infant sacrifice to Moloch or the belief of the ancients that they could not go into battle without first sacrificing such and such bullocks to the gods.

But our silly superstition is less defensible than theirs.

As to our five million youths who fought our battle for freedom, the country simply said: I need fighting men;—and took them.

#### Men and Things.

Men were commandeered. Willy-nilly they were taken—with disgrace and infamy the penalty for reluctance to serve to the death.

Can it be doubted that it would have been equally simple—indeed, far simpler—to do with the mere dead inert "things" of the nation as we did with its living sentient manhood—to commandeer them?

Yes, commandeer the whole "wealth" of the nation and all its physical instrumentalities—organize the machinery for subsisting and supplying our army in a manner as simple, direct and effective as that by which it was raised.

#### The Credit Myth.

Why was it "necessary" to issue "bonds"?

Because some of us believed in the credit myth, and because some of us (relatively a few) discerned (as they still discern) that they could make money out of others' faith in that myth.

Europe is bankrupt—the credit myth has worked its financial ruin.

That the United States is yet solvent is due only to the circumstance of its greater natural resources. With us the disproportion between real things and make-believe credit-wealth has not yet reached the same degree as it has in Europe; that is all.

And Europe is bankrupt morally no less than economically—the credit myth has debauched it spiritually.

The intolerable economic strain has turned men's minds, has inflamed them with the fever of revolution.

#### Europe's Awful Lesson.

Can men learn from experience?

Do we of the United States need more experience than we have had, a more convincing object lesson than Europe gives us?

Must we go on to the bitter end, must we too become wholly bankrupt, must the spectre of revolution rise in our fair land, before we can see what is already manifest?

Fernwald, Berkeley, May 3, 1920.

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